

Federal Budget 2012: Highlights for Atlantic Canada

The Conservative government's first full budget since they were elected with a parliamentary majority last May was tabled today by Finance Minister Jim Flaherty. The overall theme reflects a move to return to surplus by 2015/2016 by reducing the size of the federal civil service, tempered by some measures to encourage private sector job growth. While tax rates remain unchanged the budget was used to announce changes to federal policies on innovation, regulatory review processes, immigration, and seniors' income security designed to improve long-term economic performance and sustainability of public finances in the context of an aging population. (A reduction in the growth rate of the Canada Health Transfer was already announced last December).

Spending Cuts

The budget projects a \$25 billion deficit for 2011/2012, a \$6 billion improvement from the Fall Economic Update. The deficit for 2012/2013 is projected to be \$21 billion or 1.2% of nominal GDP, with the government forecasting a return to surplus by 2015/2016. To return to balance the government is reducing program spending by \$5.2 billion by 2014/2015, a larger cut than the \$4 billion projected savings in last year's budget.

The \$5.2 billion reduction in spending represents almost 7% of the \$75 billion in operating expenditures under review. It will lead to a reduction in federal employment of 19,200 jobs or 4.8% of federal employment nationally, implying the employment reduction in Atlantic Canada could be as much as 2,300 jobs.

There are several departments where federal spending cuts could hit Atlantic Canada especially hard. Defence has the largest reduction of \$1.1 billion by 2014-2015 – Atlantic Canada accounts for about 20% of non-civilian defence jobs. By 2014-15 spending will be cut by nearly \$18 million at ACOA, \$11 million at Marine Atlantic, \$67 million at Veterans Affairs and \$79 million at the Department of Fisheries and Oceans.

Innovation

A restructuring of the Scientific Research and Experimental Development (SR&ED) will be used to fund new, more direct initiatives aimed at supporting innovation in Canada. The SR&ED program had a cost of \$3.6 billion in 2011 and will see its funding reduced by \$500 million by 2016-17. Business spending on research and development in Atlantic Canada represents 2.0% of the national total which approximates to a loss of \$10 million from this credit. New initiatives include a \$400 million program to support venture capital for the private sector; a \$110 million increase in funding for the Industrial Research Assistance Program; an extra \$105 million over two years for forestry innovation; and refocusing the National Research Council toward more business-led research.

Labour Markets

To support job creation, the government is extending by one year the temporary Hiring Credit for Small Business at a total cost of \$250 million. The credit provides up to \$1,000 per employer to help defray the cost of hiring new workers. The government will limit future increases in Employment Insurance (EI) premiums to 5 cents per year with premiums eventually reaching a break-even rate.

The government is investing \$21 million over two years to provide better labour market information to help unemployed Canadians find jobs quicker. A national Working While on Claim EI pilot project will allow EI claimants to benefit from accepting work while on EI. Beginning next year, EI benefits will be based on the highest earnings weeks in the previous year to reduce disincentives to accepting work that might reduce benefit levels. The government will also strengthen and clarify what EI claimants must be doing to look for work. An additional \$50 million over two years is being put into the Youth Employment Strategy to help Canadian youth gain skills and experience for jobs in fields that are in high demand.

On the immigration side, the government will increasingly focus on economic immigrant streams, including a new federal stream for skilled tradespersons, to better match immigrants with opportunities in Canada; align the Temporary Foreign Worker Program more closely to domestic labour market needs, including helping match qualified EI claimants with job openings; put more weight on language skills in the federal skilled worker points system; and take further steps to improve processing times.

Old Age Security

The age of eligibility for Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) is being increased from 65 to 67 years of age, starting in 2023, with full implementation by 2029, so anyone currently 54 years of age or older will not be affected. The annual cost of OAS was previously projected to increase from \$38 billion in 2011 to \$108 billion in 2030. Currently,

Atlantic Canada receives about 8.5% of OAS payments because of its large share of seniors age 65 and over.

Other Measures

The federal government is eliminating a 5% custom tariff on crude oil imports from certain countries used in gas and oil refining and electricity production. Since Eastern Canadian refineries and electric utilities are much more reliant on crude oil imports than Western Canada, the estimated \$30 million reduction in tariffs will mainly benefit producers and consumers in Quebec and the Atlantic region.

The Atlantic Investment Tax Credit (AITC) is a 10-per-cent credit available for investments in new buildings and machinery and equipment. It is currently available for the primary sector and manufacturing. This budget will phase out the AITC for mining and oil and gas companies which would see an estimated \$85 million less going to firms in that sector by 2015-2016. To speed the development of major projects the budget proposes legislation to streamline the review process. This would include reducing the duplication of separate federal and provincial reviews of projects and making the review process more predictable and timely.

The budget announced significant investments in First Nations communities to expand economic opportunities and invest in infrastructure. This includes \$33.5 million for the Atlantic and Pacific Integrated Commercial Fisheries Initiatives.

Budget investments in infrastructure are modest compared to recent budgets which provided stimulus to the economy. A large portion of the spending allotted for the remaining years of the Building Canada plan were accelerated to support stimulus projects leading to lower spending over the next few years. The budget did note that consultations are underway to set up a new plan to extend the Building Canada plan beyond its expiry in 2014. New funding of \$150 million over two years was announced to support improvements to small public infrastructure facilities. Also, about \$27 million will be spent over the next two years to support small ports. And looking ahead the Budget committed \$5 billion over the next 11 years to renew the Canadian Coast Guard fleet and its helicopters, although most of the activity will occur later in the decade.